CONSOLIDATED COMPUTER INC.

Annual Report 1973

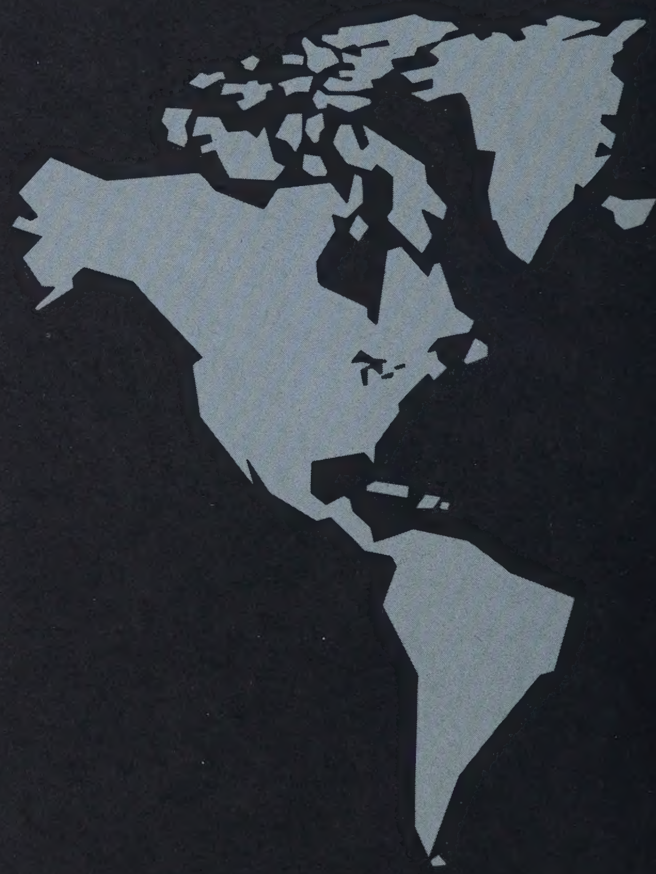
Company Profile

Consolidated Computer Inc. is the largest Canadian computer manufacturing company engaged in the design, manufacture and marketing of computer data entry systems.

The Company's products are known as the KEY-EDIT family of data entry systems. These are generally classed as key to disc systems in the industry. One of the systems uses a mini-computer, the CCI SL-2, which was designed by the Company. This is the first general purpose mini-computer designed and manufactured completely in Canada.

The Head Office of the Company is located in Toronto while Research and Development facilities and Manufacturing operations are located in Ottawa. The products are sold for international distribution to International Computers Limited in the United Kingdom, Fujitsu in Japan and Ecodata in Brazil. In North America the Company markets its products through its own sales and service offices. The home office of its U.S. subsidiary is located in Waltham, Massachusetts.

The KEY-EDIT Systems have been manufactured and sold since late in 1969. At the present time they are installed in twenty-four countries throughout the world.



Locations of KEY-EDIT Systems (by countries)

Canada
U.S.A.
Japan
Brazil
West Germany
Sweden
Holland
Poland

Year at a Glance

	1973	1972
Revenue	$12,056,000	$11,955,000
Net Earnings (loss) before Extraordinary Items	($2,571,000)	$990,000
Net Earnings (loss) after Extraordinary Items	($2,571,000)	$2,002,000
Shares Outstanding (average)	3,823,000	3,540,000

Directors' Report

Consolidated Results

Revenue from sales, rentals and services for the year ended December 31, 1973 were $12,056,000 compared to $11,955,000 in 1972. One-time costs associated with the development and manufacturing of new products had an adverse affect on the results for 1973 and the loss for the year was $2,571,000 compared to a profit of $990,000 in 1972 before extraordinary items. After including extraordinary items in 1972 the profit was $2,002,000. On a per share basis the 1973 loss was 67¢ compared to earnings per share of 28¢ the previous year.

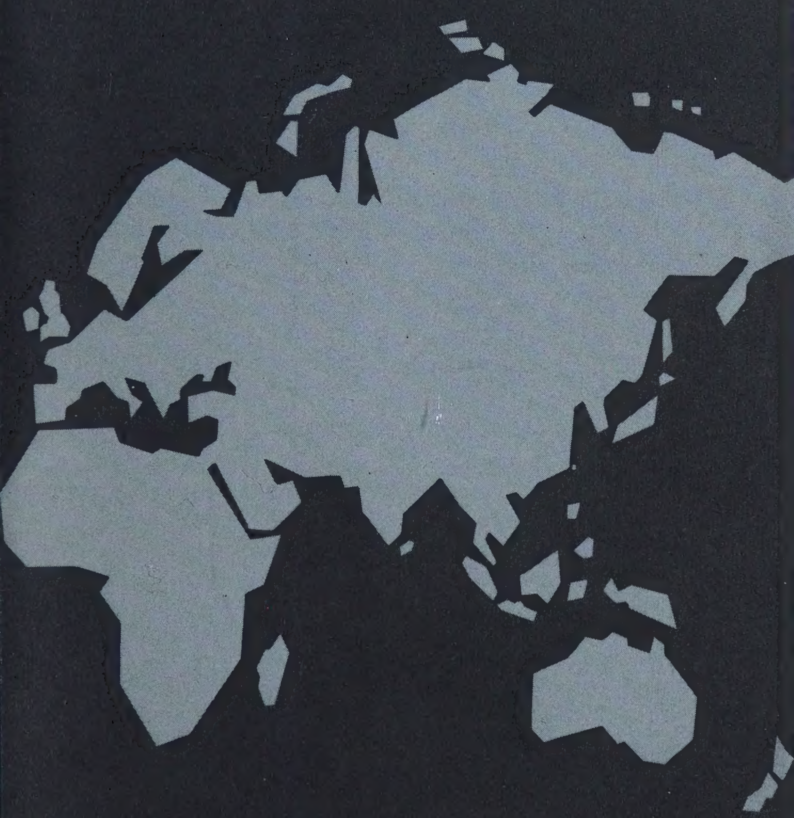
Operations

The development of the new KEY-EDIT 50 and 1000 systems was delayed, primarily by the world-wide shortages of electronic components in 1972 and 1973. However, both systems are now in production and factory volume is increasing monthly. As a result of a substantial volume of firm orders on hand, the Company expanded its facilities in Ottawa by opening a new manufacturing facility in June, 1973. It has 62,000 sq. ft. adjacent to the existing plant which was converted to engineering and development.

Marketing

The Company is experiencing increasing demands for its new KEY-EDIT systems and during the year under review several additional orders were received from its three customers in the U.K., Japan and Brazil.

In the latter part of the year a KEY-EDIT 1000 system and a KEY-EDIT 50 system were installed in Canada. These were test systems installed with large computer users in advance of the Company's expected announcement of these systems in North America. Both products were well received and, in fact, the KEY-EDIT 50 customer has ordered more systems in advance of our formal product announcements.



Czechoslovakia	Yugoslavia
U.S.S.R.	Italy
England	Australia
Southern Ireland	New Zealand
Northern Ireland	South Africa
Wales	New Guinea
Scotland	Mozambique
Switzerland	Jamaica

Financial

During the year under review the Company successfully arranged bank financing to a maximum of $1,900,000 for inventories and accounts receivable.

The Company also entered into a purchase agreement with the Ontario Development Corporation, whereby it is able to finance on a continuing basis up to $2.0 million of its component inventories with the Ontario Development Corporation.

In December of 1973 a Canadian government agency, the General Adjustment Assistance Board, agreed to lend the Company $1,400,000 secured by a first floating charge debenture. This loan enabled the Company to repay in full certain debenture series (see the Notes to the Financial Statements).

Early in 1974 agencies of the Federal and Ontario governments agreed in principal to lend the Company $7.0 million. Of this amount $4.5 million was received by April 30, 1974.

The Federal Government, through an agency, the General Adjusment Assistance Board, has indicated a willingness to support in principal a lease financing programme to be undertaken by the Company in connection with the marketing of its new KEY-EDIT systems in North America.

Management

Mr. William V. Moore was appointed Chairman and Chief Executive Officer in March, 1974. Mr. Moore has had many years of experience in the computer industry and in his new position he will be working on a full-time basis for several months.

The Directors are indebted to Mr. Donald C. Early who until March, 1974 has held the position of Chairman of the Board and in this capacity has given the Company invaluable services. Mr. Early will continue as a Director on the Board of the Company.

The year 1973 was a difficult one for the company. It completed the development of two new computer systems, converted its production completely to the new systems, quadrupled its factory labour force and moved into a new manufacturing building. The new systems are all in production now and while some start-up problems will remain during the first half of 1974, management believes that production will increase significantly during the second half. We look forward with confidence to 1975 as we continue to meet the large demand for the products around the world.

The Directors wish to thank all employees for their loyalty and dedication and express appreciation to the shareholders for their support during the year.

W. V. Moore
Chairman

W. G. Hutchison
President

CONSOLIDATED COMPUTER INC.

Consolidated Statement of Operations

for the Year Ended December 31, 1973

	1973	1972
	$	$
Net Sales, Rentals and Services	12,056,000	11,955,000
Cost of Sales and Services	9,685,000	6,581,000
	2,371,000	5,374,000
Expenses		
Marketing, administration and other	3,822,000	2,699,000
Research and development – net of government grants	919,000	641,000
Interest on long-term debt	172,000	112,000
Interest on bank loans (net)	28,000	—
	4,941,000	3,452,000
(Loss) Profit Before Income Taxes	(2,570,000)	1,922,000
Provision for income taxes	—	932,000
(Loss) Profit for the Year Before Extraordinary Items	(2,570,000)	990,000
Extraordinary Items		
Profit, net of income taxes of $39,000 on sale of time-sharing equipment and inventory	—	41,000
Gain on application of tax loss carry forward	—	971,000
	—	1,012,000
(Loss) Profit for the Year	(2,570,000)	2,002,000
Average number of common and special shares outstanding	3,823,000	3,540,000
(Loss) earnings per share (note 9)		
Basic (loss) earnings per share		
– before extraordinary items	(67¢)	28¢
– after extraordinary items	(67¢)	57¢
Fully diluted earnings per share		
– before extraordinary items	—	20¢
– after extraordinary items	—	38¢

CONSOLIDATED COMPUTER INC.

Consolidated Statement of Deficit

for the Year Ended December 31, 1973

	1973	1972
	$	$
Deficit – Beginning of Year	4,656,000	6,781,000
(Loss) profit for the year	(2,570,000)	2,002,000
Adjustment of settlement with unsecured creditors	—	123,000
Provision for costs of receivership and reorganization (reorganization was completed in 1972)	201,000	—
	(2,369,000)	2,125,000
Deficit – End of Year	7,025,000	4,656,000

CONSOLIDATED COMPUTER INC.

Consolidated Balance Sheet

as at December 31, 1973

	1973	1972
	$	$
Assets		
Current Assets		
Cash and term deposits	650,000	1,049,000
Accounts receivable –		
Trade	1,353,000	841,000
Other	628,000	544,000
Notes receivable – trade (note 2)	169,000	—
Inventories (note 3)	4,189,000	2,225,000
Prepaid expenses	76,000	79,000
	7,065,000	4,738,000
Notes Receivable – trade (note 2)	339,000	—
Fixed Assets (note 4)		
Plant and development equipment	1,302,000	786,000
KEY-EDIT equipment on lease	2,158,000	2,342,000
Furniture, fixtures and leasehold improvements	563,000	232,000
	4,023,000	3,360,000
Less: Accumulated depreciation	1,392,000	736,000
	2,631,000	2,624,000
	10,035,000	7,362,000

Signed on behalf of the Board

W. V. Moore
Director

W. G. Hutchison
Director.

	1973	1972
# Liabilities	$	$
Current Liabilities		
Bank loans (note 5)	1,650,000	—
Notes payable (note 2)	169,000	—
Accounts payable and accrued liabilities	3,305,000	756,000
Taxes payable	123,000	76,000
Current portion of long-term debt	100,000	1,065,000
	5,347,000	1,897,000
Long-Term Debt, less current portion (note 6)	9,390,000	8,384,000
Notes Payable (note 2)	339,000	—
Deferred Credit (note 6)	150,000	—
	15,226,000	10,281,000

Shareholders' Equity

	1973	1972
Capital Stock (note 7)		
Special shares	1,745,000	1,723,000
Common shares	89,000	14,000
	1,834,000	1,737,000
Deficit (note 8)	7,025,000	4,656,000
	(5,191,000)	(2,919,000)
	10,035,000	7,362,000

CONSOLIDATED COMPUTER INC.

Consolidated Statement of Changes in Working Capital

for the Year Ended December 31, 1973

	1973	1972
	$	$
Working Capital was Increased by:		
Profit for the year	—	2,002,000
Charge not affecting working capital – Depreciation	—	740,000
	—	2,742,000
Sale of time-sharing equipment	—	358,000
Deferred credit (note 6)	150,000	—
Provision for costs of receivership and reorganization – transferred to deficit	201,000	—
Increase in long-term debt (note 6)	1,900,000	—
Long-term notes payable (note 2)	339,000	—
Sale of shares (note 7)	75,000	13,000
	2,665,000	3,113,000
Working Capital was Decreased by:		
Loss for the year	2,570,000	—
Charge not affecting working capital – Depreciation	(875,000)	—
	1,695,000	—
Long-term notes receivable (note 2)	339,000	—
Increase (net) in fixed assets	883,000	1,106,000
Current portion of long-term debt (note 6)	72,000	1,065,000
Repayment of long-term debt (note 6)	800,000	—
	3,789,000	2,171,000
(Decrease) Increase in Working Capital	(1,124,000)	942,000
Working Capital – Beginning of Year	2,842,000	1,900,000
Working Capital – End of Year	1,718,000	2,842,000

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Consolidated Computer Inc. as at December 31, 1973 and the consolidated statements of operations, deficit and changes in working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants

March 29, 1974

CONSOLIDATED COMPUTER INC.

Notes to Consolidated Financial Statements

for the Year Ended December 31, 1973

1. Principles of Consolidation

The consolidated financial statements include CC Consolidated Computer International Inc., the wholly-owned United States subsidiary and the non-operating United Kingdom subsidiary.

2. Notes Receivable

The notes are receivable over a period of 36 months and are insured by the Export Development Corporation. The company has an agreement with its bankers to finance these notes in equal amounts and on the same terms, to a maximum of $10,000,000. The bank's loans are secured by a collateral floating charge debenture and a pledge and assignment of the notes receivable.

3. Inventories

	1973	1972
	$	$
Parts and components for:		
Manufacturing	3,533,852	1,829,465
Repair and overhaul	260,276	141,579
Field service	394,708	253,841
	4,188,836	2,224,885

Inventories are valued at the lower of cost and net realizable value.

Under an inventory purchase agreement an Ontario government agency is purchasing certain inventory components from the company. The company is obligated to repurchase these inventory components at such times as they are shipped to its customers. The value of that inventory at December 31, which is not included in these financial statements, is $1,077,865.

4. Fixed Assets

	1973			1972		
	Valuation (see (a) below)	Accumulated depreciation	Net	Valuation (see (a) below)	Accumulated depreciation	Net
	$	$	$	$	$	$
Plant and development equipment	1,302,249	262,445	1,039,804	785,779	100,761	685,018
KEY-EDIT equipment on lease	2,157,554	1,066,315	1,091,239	2,342,379	613,327	1,729,052
Furniture, fixtures and leasehold improvements	562,864	62,757	500,107	231,611	22,014	209,597
	4,022,667	1,391,517	2,631,150	3,359,769	736,102	2,623,667

(a) Fixed assets are valued at cost except for KEY-EDIT equipment assembled before December 31, 1971 which is valued at the then estimated fair market value.

(b) Depreciation is recorded generally on the straight-line basis over the estimated service lives of the assets.

5. Bank Loans

The bank loans are secured by a pledge and assignment of book debts and inventories.

6. Long-Term Debt

Principal amount 1973 $	Principal amount 1972 $	Interest (see (B) below)	Description	Security	Maturity $	Conversion feature
1,400,000	—	7 7/16%	Secured debenture (see (A) below)	First floating charge debenture subject to assignment of book debts, notes receivable and inventories	1975-500,000 1976-400,000 1977-300,000 1978-200,000	None
		None	Secured Debentures (see (A) below)	Floating charge subordinate to first floating charge debenture	1975-600,000 1976-200,000	None
—	600,000		Series One			
800,000	800,000		Series Two			
800,000	1,400,000					
			Junior Secured Convertible Debentures			
500,000	500,000	9% after December 31, 1975	Series A	Floating charge subordinate to secured debentures and secured promissory notes	20% per annum of principal amount outstanding on December 31, 1975 commencing December 31, 1976	$5 per common share until December 30, 1975
1,962,534	2,000,000	Prime + ½%	Series B	Floating charge subordinate to secured debentures and secured promissory notes	$300,000 per year to December 31, 1975 and the balance December 31, 1976. These repayments will be reduced by the annual amounts of interest paid. The estimated amount repayable against principal at December 31, 1974 is $100,000.	$5 per common share until December 30, 1975
—	700,000	None	Series C (see (A) below)			
2,462,534	3,200,000					
			Convertible notes	None		
1,200,000	1,200,000	9% after December 31, 1975	Series One (see (A) below)		1975-700,000 1976-200,000 1977-200,000 1978-100,000	$5 per non-voting convertible special share until December 30, 1975
3,627,348	3,649,134	9% after December 31, 1975	Series Two (see (D) below)		15% per annum of principal amount outstanding on December 31, 1975 payable on December 31 of each year from 1975-1980 and the balance on December 31, 1981	$5 per non-voting convertible special share until December 30, 1975
4,827,348	4,849,134					
9,489,887	9,449,134					
100,000	1,065,000	Current portion				
9,389,882	8,384,134					

6. Long-Term Debt (continued)

(A) Under agreements dated December 31, 1973:

(i) a Canadian government agency agreed to lend the company $1,400,000 secured by a first floating charge debenture,

(ii) the holder of the $600,000 secured debentures Series One and the $700,000 junior secured convertible debentures Series C agreed to accept $1,150,000 from the company as full payment for those debts. The difference of $150,000 resulting from the repayment has been deferred and will be credited to interest expense in future years,

(iii) the holder of the $800,000 secured debentures Series Two agreed to extend until June 30, 1975 the maturity dates of those debentures maturing December 31, 1973 and December 31, 1974,

(iv) the holder of the $1,200,000 convertible notes Series One agreed to extend until June 30, 1975 the maturity dates of those notes maturing December 31, 1973 and December 31, 1974.

(B) In the event of default of repayment of principal on any of the above non-interest bearing debt, interest begins to accrue at 9% per annum.

(C) Under the terms of various debentures, indentures and loan agreements the company:

(a) must maintain consolidated working capital of $2,250,000 (see note 13(a)).

(b) must meet at least two of the three following conditions:

(i) The sum of acceptable receivables, firm orders to be invoiced within thirty days and cash balances of the company will be not less than $500,000;

(ii) The sum of acceptable receivables, firm orders to be invoiced within sixty days and cash balances of the company will be not less than $800,000; and

(iii) The sum of acceptable receivables, firm orders to be invoiced within ninety days and cash balances of the company will be not less than $1,100,000.

(c) may not exceed specified aggregate amounts of capital expenditures and lease commitments in any one year.

(d) may not declare or pay any dividends or make any other distributions to its shareholders or acquire or otherwise redeem any shares of its capital stock or make any pre-payments (other than mandatory pre-payments) on any junior debt.

(D) During the year $21,786 of the Series Two convertible notes were converted into 4,357 non-voting convertible special shares.

7. Capital Stock

	Common shares of no par value		Special shares without par value	
	Shares	$	Shares	$
Authorized	3,550,000		2,250,000	
Issued and fully paid – Beginning of year	2,575,042	13,580	1,217,692	1,723,256
Conversion of convertible notes Series Two	—	—	4,357	21,786
Exercise of stock options	56,080	75,718	—	—
End of year	2,631,122	89,298	1,222,049	1,745,042

The non-voting convertible special shares are preferred as to the first 10¢ per share dividend declared in any one year; thereafter the common shares are entitled to the next 10¢ of dividend in any one year; and thereafter in any one year the two classes of shares participate equally in dividends declared.

From the earlier of (a) December 31, 1975 and (b) a date that the company shall designate in writing to the registrar for the non-voting special shares, the holders of non-voting special shares shall be entitled to convert any or all of the non-voting special shares held by them into common shares of the company on a share-for-share basis.

The following shares have been reserved as at December 31, 1973 for the conversion of debentures and the exercise of stock options:

	Common	Special
Junior secured convertible debentures –		
Series A	100,000	—
Series B	392,500	—
Convertible notes –		
Series One	—	240,000
Series Two	—	725,470
Reserved for options to employees exercisable at various times to January 14, 1978 to option prices ranging from $1.35 to $2.54 per share	237,780	—
	730,280	965,470

Under the terms of the Junior Secured Debentures Indenture and Convertible Note Indenture the company has covenanted that, other than for the purpose of making available, whenever the special shares become convertible into common shares, sufficient authorized common shares for the purpose of providing for such conversion, it will not increase its authorized capital prior to December 31, 1975 without the prior approval of the holders of the junior secured debentures and convertible notes.

8. Income Taxes

At December 31, 1973, the parent company and its U.S. subsidiary had approximately $16,000,000 of losses carried forward (including approximately $4,600,000 of excess capital cost allowances) which can be applied against future profits to reduce income taxes. This amount could be increased by approximately $3,000,000 and/or decreased by approximately $4,000,000 depending on rulings given by the Canadian and American income tax authorities.

As such losses, other than those which relate to the excess capital cost allowances, may be carried forward for a maximum of five years, the following amounts must be utilized within the years noted: 1974 – approximately $800,000, 1975 – approximately $2,600,000.

9. Earnings Per Share

Fully diluted earnings per share for the year ended December 31, 1972 were calculated assuming the exercise of all share options and the conversion of all the convertible debentures and notes and that the proceeds of share options would yield income equal to the interest rate on the Junior secured convertible debentures Series B. No dilution has been calculated for the year ended December 31, 1973 as the effect would be to reduce the loss per share.

10. Conversion of Foreign Currency

Current assets and current liabilities in foreign currencies have been converted to Canadian funds at approximately the year-end rates of exchange. No significant profit or loss resulted from this conversion.

11. Remuneration of Directors and Senior Officers

Total remuneration paid to directors and senior officers as defined by the Business Corporations Act for the year was $272,006.

12. Lease Commitments

Total rentals paid for the year ended December 31, 1973 and the total of future commitments (excluding tax and similar expenses) are:

	$
Year ended December 31, 1973	396,364
January 1, 1974 to December 31, 1978	1,926,970
January 1, 1979 to May 31, 1981	600,711

13. Subsequent Events

(a) Subsequent to the year-end, the company notified its bankers and noteholders (see Note 6) that its consolidated working capital as at January 31, 1974 was less than the required $2,250,000. The company has obtained all the necessary waivers of that working capital requirement through March 31, 1974.

(b) On February 20, 1974 the company borrowed $500,000 from a Federal government agency against a promissory note payable on demand.

(c) On March 8, 1974 the company borrowed $3,000,000 from agencies of the federal and Ontario governments in the form of demand loans secured by a debenture subordinate only to security given by the company to its bankers.

CONSOLIDATED COMPUTER INC.

Directors	W. V. Moore	Chairman	President, Corporate Master Limited
	D. G. Kilgour	Secretary	Partner, Kilgour, World, Flood & Ronson
	W. G. Hutchison	Director	President, Consolidated Computer Inc.
	G. H. Bennett	Director	Senior Vice-President, Marketing and Business Development
	J. H. Tory	Director	Partner, Tory, Tory, Des Lauriers & Binnington
	D. C. Early	Director	Greenshields Inc.
	E. S. Miles	Director	Director, Burns Bros. & Denton

Officers of the Company	W. V. Moore	Chairman of the Board
	W. G. Hutchison	President
	G. H. Bennett	Senior Vice-President, Marketing and Business Development
	W. H. C. Kooij	Vice-President, Advance Planning
	J. van Velzen	Director of Finance and Treasurer
	D. G. Kilgour	Secretary

Registrar and Transfer Agent — Royal Trust Company

Bankers — The Toronto-Dominion Bank

Auditors — Coopers & Lybrand

Solicitors — Kilgour, World, Flood & Ronson

Offices and Plant

Head Office - Canada
50 Gervais Dr.
Toronto, Ont.
M3C 1Z3

Home Office - U.S.A.
275 Wyman St.
Waltham, Mass.
02154

Manufacturing Plant
2421 Lancaster Rd.
Ottawa, Ont.
K1B 4L5

Sales and Service Locations

Canada	**U.S.A.**
Quebec City, P.Q.	Boston, Mass.
Montreal, P.Q.	Bridgeport, Conn.
Ottawa, Ont.	Philadelphia, Pa.
Toronto, Ont.	Harrisburg, Pa.
London, Ont.	Washington, D.C.
Winnipeg, Man.	Columbus, Ohio
Regina, Sask.	Cleveland/Akron, Ohio
Vancouver, B.C.	Springfield, Ill.

KEY-EDIT® Systems...

The KEY-EDIT 50, CCI's low cost and newest member of the "KEY-EDIT family", features a sophisticated communications option that allows communications with a remote mainframe computer concurrent with data input.

Satisfy input needs - around the clock

The State Data Center in Columbus, Ohio, is a massive, centralized computing installation for handling most of the State's considerable data entry and data processing requirements. KEY-EDIT is playing an important role in the State Data Center installation.

A single, central processing unit together with 16 key-stations is running around the clock, three shifts a day, five days a week. In the 1½ years the equipment has been in use with the Center, uptime has averaged more than 99.5%.

When the State Data Center converted to KEY-EDIT from key-punch operations, half of the staff did not think they could be retrained from key-punch to KEY-EDIT. This worry proved fruitless, however, and the operators quickly and readily changed strides. In fact, a Million Keystroke Club has been initiated at the State Data Center.

Increase input efficiency

London Life Insurance Company in London, Ontario, one of Canada's largest insurers, had a problem. Due to increasing business every year, there was a corresponding increase in the workload of the company's computers and more overtime for keypunch operators.

It was decided to install KEY-EDIT data processing equipment and since that time London Life has noticed a reduction in workload and a gain in efficiency in its data input division.

There are now two KEY-EDIT Systems at London Life with 19 key-stations in each. The two units handle most of the company's considerable individual insurance, group insurance and mortgage transactions. In these three areas, production averages 950,000 records per month. In fact, 75% of all keyed data is processed on London Life's two systems.

CONSOLIDATED COMPUTER INC.
CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 1973
(Unaudited)

	1973	1972
Source of Working Capital		
Profit for the period	$ 556,000	$ 735,000
Add: Charges not affecting working capital		
Depreciation	429,000	395,000
	985,000	1,130,000
Sale of time-sharing equipment	—	338,000
Sale of shares	69,000	—
	1,054,000	1,468,000
Use of Working Capital		
Increase (net) in fixed assets	400,000	673,000
	400,000	673,000
Increase in Working Capital	654,000	795,000
Working Capital — Beginning of Period	2,842,000	1,900,000
Working Capital — End of Period	$3,496,000	$2,695,000

CONSOLIDATED COMPUTER INC.

50 GERVAIS DRIVE, DON MILLS,
ONTARIO M3C 1Z3

Report to our Shareholders for the Six Months ended

June 30, 1973

To Our Shareholders:

Net sales and rentals for the six months ended June 30, 1973 rose to $6,234,000 compared with $5,608,000 last year, an increase of 11.2 per cent. Profits for the period ended June 30, amounted to $306,000 or 8.5 cents per share compared with $404,000 or 11.7 cents per share last year. These results are before extraordinary gains from tax loss carried forward of $250,000 and $331,000 in 1973 and 1972 respectively.

As announced in our first quarter report the new KEY-EDIT 50 System has been introduced by our distributors in the Common Market, Japan and Brazil. Market reaction has been excellent with the result that all distributors are now forecasting a requirement for more Systems than were previously ordered in their purchase agreements with the company. Initial production of the KEY-EDIT 50 System began in May and volume has been increasing each successive month.

The more powerful new KEY-EDIT 1000 System was also announced in the Common Market countries in the second quarter and initial shipments are scheduled for delivery to customers in England in October.

The KEY-EDIT 1000 System is an advanced key-to-disc processing system designed to satisfy a rising demand for more sophisticated software editing techniques during data preparation. It will accept input data in any format and has powerful editing, validating and processing features together with a large storage capacity and a variety of output devices.

Your Company's manufacturing operation successfully moved into a new 49,000 sq. ft. building in Ottawa this June. The original Ottawa building, 22,000 sq. ft. in area and previously used for engineering and some manufacturing, is being converted into an engineering centre for new product development.

During the period under review, your Company successfully negotiated credit arrangements totalling $1,900,000. This will enable Consolidated Computer Inc. to finance increases in inventory and accounts receivable resulting from accelerating sales of systems and spare parts.

As forecast in the first quarter statement and last year's annual report, product development and production start-up costs were heavy in the second quarter and these will continue to be heavy for the rest of 1973. Company profits are stated conservatively because these costs are being written off as they occur.

I am confident that our conservative approach this year will have a favourable influence on earnings as we deliver the new products to our distributors during the next three years.

W. G. Hutchison

Toronto
August, 1973

William G. Hutchison,
President

CONSOLIDATED COMPUTER INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 1973
(Unaudited)

	1973	**1972**
Net Sales and Rentals	$6,234,000	$5,608,000
Cost of Products and Rentals	3,551,000	3,199,000
	2,683,000	2,409,000
Expenses:		
Marketing, administration and other	1,544,000	1,353,000
Research and development costs	515,000	282,000
Interest on long-term debt	68,000	39,000
	2,127,000	1,674,000
Profit before income taxes	556,000	735,000
Provision for income taxes	250,000	331,000
Profit for the period before Extraordinary Item	306,000	404,000
Extraordinary Item		
Gain on application of tax loss carried forward	250,000	331,000
Profit for the period after Extraordinary Item	$ 556,000	$ 735,000
Average number of common and special shares outstanding	3,590,579	3,456,850
Earnings per share		
Basic:		
Income before extraordinary item	8.5¢	11.7¢
Income after extraordinary item	15.5¢	21.3¢
Fully diluted:		
Income before extraordinary item	6.3¢	7.8¢
Income after extraordinary item	11.4¢	14.1¢